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Contribution to Memo for the DCI

FRANCE

Economic Relationship with the United States

France has substantial economic ties with the United States. While last year exports to the United States accounted for 5.2 percent (\$5.6 billion) of total French exports, <sup>and</sup> imports from the United States represented 8.2 percent (\$9.8 billion) of total French imports. Historically, France has run trade deficits with the United States. Last year's deficit with the United States was equal to over one-third of the French trade deficit with all Western industrialized nations. (U)

France is heavily dependent on the United States for certain raw materials and manufactured goods as well as some foodstuffs. It buys from this country two-thirds of the cereals, 84 percent of the soybeans, 37 percent of the coal, 48 percent of the computer equipment and 70 percent of the aircraft and aircraft parts that it imports. French exports to the United States have traditionally included food and farm products as well as some raw materials and luxury goods. (U)

France is eager to increase its investment in the United States, which represented 4 percent of total foreign investment in this country in 1980 (compared with 9.1 percent for West Germany and 6.6 percent for Japan). <sup>Some</sup> Major French companies

<sup>firm</sup> <sup>e.g.,</sup> including private ones, have bought US <sup>companies</sup> (Elf-Aquitaine's

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and LaFarge's takeovers of two multibillion-dollar US groups, Texasgulf and General Portland, [respectively last year;] <sup>and</sup> Gervaise's [Dannon's] \$84.3 <sup>billion</sup> takeover of Beatrice Foods' Dannon, <sup>all in 1981</sup> [last year]. <sup>Others have</sup> opened up plants (Michelin) <sup>or</sup> [and] sales offices (Perrier) in the United States. The number of small and medium-sized firms entering the US market is also on the rise <sup>(Adolphe Lafont)</sup>. Most of the large French banks [also] have representative offices or subsidiaries in the United States. (U)

~~[French companies already had substantial holdings in the United States.]~~ The US subsidiaries of newly nationalized companies include Howmet Aluminum and Howmet Turbine Components Corporation, owned by the metals and chemicals group Pechiney-Ugine-Kuhlmann; two recently acquired petrochemical plants and several other subsidiaries, owned by France's largest chemical group, Rhone-Poulenc; Certain-teed, a manufacturer of insulation products, owned by the glassmaking, steel pipe, and insulation conglomerate Saint-Gobain; and Phoenix Steel and Refinement International, owned by the financial group Empain-Schneider. [The direct ownership by] <sup>equity</sup> US firms in the parent companies or major subsidiaries of the newly nationalized industrial firms other than the electronics firm CII-HB (47 percent US owned) and ITT-France (99 percent US owned) is relatively small. Joint ventures in France between nationalized companies and US firms include Eurotechnique (Saint Gobain and National Semi-Conductor), Matra-Harris, and a Matra-Harris joint venture with Intel. (U)

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In recent years about one-fourth of total foreign direct investment in France has come from the United States. The book value of US direct investment <sup>soared</sup> ~~Climbed~~ from \$217 million in 1950 to \$6 billion by the end of 1976. US investment is considerable in <sup>the</sup> instrumentation, petroleum, rubber, <sup>in</sup> machinery, cinematographic, and automobile industries. (U)

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The Socialist government continues to welcome foreign investment on a selected <sup>ive</sup> basis, particularly where it (1) does not result in takeovers of French firms, (2) introduces technical expertise in [those] sectors of the economy from which it has been missing, [high technology industries with an emphasis] [on research and development]), (3) occurs in export-oriented industries, and (4) is channeled into firms located in the less <sup>prosperous</sup> (developed) regions of the nation, [because of the job creation] [potential]. (U)

France has bought some important licenses for US technology. Most notable in this regard are the pressurized water reactor produced by Framatome and used in France's nuclear program -- under license from Westinghouse -- and Alsthom-Atlantique's license from GE to produce rotors <sup>suitable</sup> for the Yamal gas pipeline. The French understanding of the licensing arrangement is that, while it prevents France from selling technology to a third party, there are no restrictions on product sales and no requirement that the French company give either the US company or the US government prior notice of a product sale. The US company officially learns of sales through royalty payments. French companies generally value their cooperative relations with US companies and are reluctant to jeopardize them. (C)

#### Ties with the Soviet Bloc

Despite the relatively low level of French trade with the Soviet Union and Eastern Europe, Paris views this relationship as

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important, both because of its economic worth and because of its value in demonstrating France's political independence and role as an intermediary in East-West communications. Last year exports to the Soviet Union represented only 1.8 percent -- \$1.9 billion -- of total French exports; exports to Eastern Europe were 1.9 percent -- \$2.1 billion -- of total French exports. The Soviet Union accounted for 2.8 percent -- \$3.4 billion -- of total French imports while Eastern Europe supplied one percent -- \$1.6 billion -- of total French imports. Energy accounted for nearly 83 percent of French imports from the Soviets; food and agricultural products comprised the bulk of exports, followed by metals, machinery and transport equipment, and chemicals. (U)

Paris hopes both to continue its surpluses with Eastern Europe and to reduce its trade deficit with the Soviet Union, primarily through continued use of government and commercial credits. A slight improvement can be expected next year. Last year was a banner year for new contracts -- \$1.2 billion worth were signed, of which \$800 million were directly related to the Yamal gas pipeline; the remaining contracts related to steel, automobiles, and gas exploration and exploitation. (C)

The French have been firm in their refusal to restrict exports or deny credits to the Soviets. Moreover, President Mitterrand has repeatedly stated that France will not engage in economic warfare against the USSR, viewing acquiescence in new US sanctions involving Alsthom Atlantique's rotors for the pipeline

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as a move in that direction. The decision earlier this year by a group of state-owned French banks to lend the Soviets \$140 million to finance purchases of French equipment for the Yamal pipeline provided the final amount needed to finance French sales for the project. (C)

#### Reactions to US Trade Measures

Responding to the recent US legal measures on steel, President Mitterrand accused the United <sup>States</sup> of reneging on the compromises reached at Versailles and called the measures "restrictive" and "protectionist." The French believe that the United States had dealt them a hard commercial blow, one that probably hurts their direct interests much more than the US pipeline measures. As a result of the measures, the French steel industry -- which sells 14 percent of French exports to the United States -- will lose over a million tons of exports unless the US formula used to calculate the degree of subsidization is changed. (S)

Paris has long argued that government loans and assistance to its steel industry do not constitute export subsidies under the GATT and that imports from France have not been a source of injury to the United States. They also point out that even without restrictions on steel France has a deficit of over \$4 billion with the United States. The French firms involved may ask the French government to take the matter to GATT. Because of high unemployment in France, there have been union pressures to

close off French imports and to export at any price. The latest US economic measures could lead to increased labor pressure on the government for reprisals against US exports. (C)

With regard to US economic measures on the pipeline, French officials argue that Alsthom-Atlantique's sale of rotors to the Soviets would not undercut US sanctions, since GE was not one of the "principal and direct" suppliers in the pipeline deal. Alsthom officials acknowledge that their license from GE is subject to certain US prohibitions but <sup>by</sup> question whether such prohibitions can be applied retroactively or to product sales. From a technical standpoint, Alsthom could proceed -- without reference to GE -- in building the 40 rotors already contracted for by the Soviets, as well as any others on which they might choose to bid. However, Alsthom officials are reluctant to destroy their 20-year cooperative relationship with GE by delivering the rotors. A final decision to go ahead would likely be more political than economic. Mitterrand may be tempted to use the sanctions issue to demonstrate his independence from the United States. (C)